

Digest of a Performance Audit of Compensation Practices of Quasi-Governmental Organizations

At your request, we have completed our review of board and executive compensation practices within three quasi-governmental organizations and one special district. Overall, we found significant compensation practice differences among the four organizations we reviewed. First, executive board compensation practices are significantly different among the four organizations. Second, the executive compensation practices at the Workers' Compensation Fund of Utah (WCFU) are comparatively aggressive. Third, the Utah Transit Authority (UTA) is somewhat aggressive in their executive compensation practices. Fourth, the Utah Retirement Systems' (URS) executive compensation practices are comparatively moderate, as are the executive compensation practices at the Utah Housing Finance Agency (UHFA). The markets to which organizations choose to compare has a significant impact on executive compensation. The Legislature may want to provide some direction to quasi-governmental organizations regarding appropriate comparison markets.

Each organizations' executive salaries have increased at a different rate since 1990. The salary of the Executive Director of Utah Housing Finance Agency has increased 29 percent, while the salary of the Executive Director of Utah Retirement Systems has increased 26 percent since 1990. On the other hand, the General Manager's salary at Utah Transit Authority has increased 60 percent, while the Chief Executive Officer's salary at Workers' Compensation has increased 306 percent since 1990.

These different rates of increase are due, in large part, to the markets (i.e., governmental, quasi-governmental, or private) the organization chooses as a comparison. This report clearly demonstrates that vastly different compensation amounts are being paid to the four organizations reviewed. However, before considering any specific compensation policies for quasi-governmental organizations, the Legislature first needs to determine how quasi-governmental organizations should operate (i.e. like private industry or like state government operations).

Quasi-governmental organizations as well as special districts have the freedom to choose whatever markets they would like to use in a salary comparison. Currently, quasi-governmental organizations are like private organizations in some ways. Specifically, the executive board of each quasi-governmental organization, rather than state government, is the controlling body of the organization, with the exception of the UHFA, whose board has statutory limitations. As a result, these organizations are exempt from many legislative statutes (e.g., the Utah Procurement Code, the Utah State Personnel Management Act) that state agencies must follow. It was thought that by removing these organizations from direct state control, the state may have less liability should the organization fail. Further, under this scenario, the state also has less control over the actions of the organization. If the Legislature wants more control over the actions of the quasi-governmental organizations (i.e., control over compensation issues), then establishing more policies directing their actions would be appropriate. However, by enacting more statutory

policies, the Legislature would be bringing the quasi-governmental organizations under state control. Thus, while more control would be gained, more state liability would also be created.

The following summaries identify the most significant findings and conclusions of the audit:

Board of Director Compensation Policies Show Wide Variance. The board per diem rates among the four organizations vary significantly. In addition, there is variance as to the basis of per diem. Specifically, three organizations pay per diem for official meetings only with per diem ranging from \$25 to \$125 per meeting. WCFU, on the other hand, pays per diem on an hourly basis at the rate of \$65 an hour. However, WCFU compensates its chairperson on a different basis than it does its members by paying him a flat \$1,300 a month. The other three organizations pay their chairperson the same as the other board members. WCFU has gained approval from the Division of Finance for its board compensation policies. While this practice is apparently within statutory authority, we believe that the statute may be too broad. In addition, it is our opinion that some practices at WCFU are inappropriate. Specifically, the chairperson is not required to document hours worked and all board members are compensated for preparation time and other board related activities. Both of these practices are unusual, as is the hiring of current board members as consultants, which the WCFU has done in the past. Finally, we found some statutory inconsistencies which may require some policy clarification by the Legislature.

Workers' Compensation Executive Pay Practices are Comparatively Aggressive. In 1995, the CEO of WCFU received \$142,894 in base salary and \$226,294 in total compensation. The executives reporting directly to the CEO (the second-level executives) averaged \$99,814 in base salary and \$129,464 in total compensation. Both the base salary and the total compensation of these executives are high when compared to executive compensation in other similar organizations. Further, when factors which influence executive salary levels (i.e., organizational size factors) are considered, the executive salaries at WCFU are higher than expected for a quasi-governmental organization. The salaries may appear comparatively high because WCFU, in practice, is competitive at the 75th percentile in the national property and casualty insurance market. Executives at WCFU believe they need to be competitive at this level in order to recruit and retain the most qualified people and to reward outstanding performance.

Pay Practices at Utah Transit are Somewhat Aggressive. In 1996, the General Manager of UTA received \$133,350 in base salary and \$151,710 in total compensation. The second-level executives averaged \$83,200 in base salary and \$94,140 in total compensation. These salaries are higher than salaries in surrounding intermountain organizations and salaries in selected organizations. In addition, when factors that influence executive salary (i.e., organizational size and executive experience) are considered, lower salaries are expected for both the General Manager and the second-level executives. In setting its executive salaries, UTA uses both regional private market data as well as data from selected transit organizations.

Utah Retirement's Compensation Practices Appear Comparatively Moderate. In 1996, the Executive Director of URS received \$94,370 in base and total compensation. The Deputy Director received \$80,993 in base and total compensation. When compared to some retirement systems, the URS executives' salaries are low. However, in some of the comparisons, URS's organizational size is not comparable with that of the other retirement systems. When factors that influence executive salary size (i.e., organizational size factors and executive experience) are specifically considered, the executive salaries at URS appear reasonable. URS's compensation practices are comparatively moderate because the URS has chosen to closely follow Utah state government compensation practices.

Utah Housing Finance Agency Compensation is Comparatively Moderate. The Executive Director of UHFA received \$93,351 in base salary and \$95,851 in total compensation in 1996. The Deputy Director received \$73,099 in base and total compensation in 1996. From our analyses we found that the total compensation for the UHFA Executive Director is similar to intermountain states' housing agencies and quasi-governmental agencies we surveyed, but below selected housing agencies of like size and organizational structure. The Deputy Director's salary is most similar to the intermountain housing agency markets. We also performed statistical tests on our data and determined that total compensation for the UHFA executives is justified by the agency size and the executive's years of experience. Because the Utah Housing Finance Agency salary policy is guided by the State of Utah Pay Plan, executive compensations are comparatively moderate.

Recommendations. The markets with which an organization compares have a significant effect upon the level of executive compensation. This report clearly demonstrates that vastly different compensation amounts are being paid to the three quasi-governmental organizations and the one special district reviewed. However, before considering any specific compensation policies for quasi-governmental organizations, the Legislature first needs to determine if it wants quasi-governmental organizations to operate more like private industry.